Committee on Resources

Subcommittee on Forests & Forest Health

Testimony

Statement of the
Pacific Coast Federation
of
Fishermen's Associations
to the
House Resources Committee,
Subcommittee on Forests & Forest Health
Hearing on County Timber Revenue Stabilization
Washington, D.C.
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Thank you for the opportunity to testify. My name is Glen Spain. I am the Northwest Regional Director for the Pacific Coast Federation of Fishermen's Associations (PCFFA), the largest trade organization of commercial fishing families and fishermen on the west coast. PCFFA is a federation of 25 different commercial fishing vessel owner's associations and port associations, whose members participate in every west coast fishery, in particular salmon, from San Diego to Alaska. We represent thousands of working commercial fishing men and women throughout the west coast who are the economic mainstay of many coastal communities. As America's oldest industry, we are the men and women who put fresh, high-quality seafood on America's tables, create a job base for coastal communities, and help support federal, state and local community services through our taxes.

The Importance of Protecting Federal Forests to Support Fishing Jobs

Salmon are inherently a forest-dependent species. As 'anadromous' fish, salmon spawn and rear in freshwater streams (preferably in forested areas), make their way through the estuary into the ocean where they grow into adults, and then must return back to their streams and forests of origin to start the next generation. Salmon are also the most sensitive to their environment in the egg stage and as juveniles when they are still in freshwater streams just after spawning. Some species (such as coho salmon) spend a fairly long time in freshwater streams, since they must "overwinter" there for up to 18 months before migrating out to sea, and are thus exceptionally sensitive to forest conditions.

Unfortunately, because of decades of salmon habitat destruction on private lands throughout the west coast, today the last, best salmon spawning and rearing areas are now on federal forestlands. Overall, 38% of the freshwater range of Pacific salmon is located on federal lands. For some species, such as spring and summer chinook, this percentage can be as high as 65%. The vast majority (over 80%) of these key salmon spawning and rearing refuge areas are also on national forests now managed by the U.S. Forest Service.[(1)] Thus Forest Service activities can have a dramatic impact on the west coast's remaining wild salmon

populations.

Past Forest Service and BLM policies have seriously overemphasized timber harvest to the point where it has jeopardized other forest-dependent economic activities and biological values. Historically, widespread (and completely unsustainable) overharvest of timber on these federal lands has seriously depleted our salmon resource on the west coast by fragmenting forest ecosystems, putting in an extensive (and now rapidly eroding) system of logging roads, clearcutting steep hillsides (which increases the frequency and severity of landslides which introduce excessive amounts of silt), stripping steamside vegetation and thus increasing water temperature to near lethal levels for salmon, and generally degrading the biological integrity of many important west coast salmon streams. As a result of these impacts, which are exaccerbated by many other human-caused impacts, *there are now 24 major populations of salmonids coastwide that are listed under the federal Endangered Species Act*, with many more in candidate status and thus likely to be listed in the near future.

Roughly speaking, we have lost about 80% of the productive capacity of salmon streams in the west coast as a direct result of various types of watershed destruction, including on federal lands. According to a 1991 comprehensive scientific study by the prestigious American Fisheries Society, at least 106 major populations of salmon and steelhead on the West Coast are already extinct. Other studies place the number at over 200 separate stock extinctions in the Columbia River Basin alone. The AFS report also identified 214 additional native naturally-spawning salmonid runs at risk of extinction in the Northwest and Northern California: 101 at high risk of extinction, 58 at moderate risk of extinction, and another 54 of special concern.[(2)]

Until very recently, salmon also meant big business to the Northwest and northern California economies. As recently as 1988, salmon fishing (both commercial and recreational) supported 62,700 family wages jobs throughout that region, and brought in over $1.25 billion/year to the regional economy. In spite of recent declines, salmon still support a substantial number of west coast jobs, from San Diego to Alaska. With proper stewardship of our public lands, many of these jobs can be returned to the economy.

Aside from commercial salmon fishing, other fishing activities based on federal forests play a major role in the nation's economy. Sportfishing is, in fact, the number two economic activity -- just after timber harvests -- which is supported by our national forests system, and is a component of much of the recreational activity of the country as well. According to an economic survey published by the American Sportfishing Association and funded by the U.S. Fish and Wildlife Service (*The 1996 Economic Impact of Sportfishing in the United States*), sportfishing in all its forms contributed roughly $108 billion dollars in 1996 to the U.S. economy. State by state breakdowns for western states in which national forests are most extensive was as follows:

State	Economic Output	Jobs	State Taxes	Federal Income Tax
Alaska	$956,793,847	12,626	$notax	$26,843,763
California	7,127,585,206	74,420	226,612,888	214,031,472
Idaho	461,681,805	6,884	18,625,254	10,711,682
Montana	447,974,606	7,505	214,788	11,114,641
Oregon	1,173,234,473	14,940	16,316,641	31,090,558
Washington	1,358,381,838	16,713	45,785,766	39,676,035
TOTALS=	$11,525,651,775	133,088	307,555,337	333,468,151

Sportfishing is clearly a big business. Much of this economic activity is supported by or takes place within our national forests. Many of the species which are fished for are also supported biologically by these important forest ecosystems (such as wild salmon and steelhead), or inhabit streams and rivers whose waters are fed in large part from national forest headwaters. According to that report, in 1996 nationwide, inland freshwater fishing alone (i.e., excluding the Great Lakes) accounted for more than $71 billion to the U.S. economy and supported an estimated 794,214 jobs.

Current Timber-Linked County Payments Are a Disincentive to Good Stewardship

Because so much of the state's timberlands are federally owned, the State of Oregon receives more federal timber payment dollars than any other state. Many county road budgets in Oregon, particularly in rural coastal and rural counties east of the Cascades, were historically supported in large part by the 25% timber payments scheme of the past. However, in order to expand those county budgets, there had to be more federal timber harvested. The counties economic incentive was therefore to push for higher and ever higher rates of federal timber harvests each year simply to support voracious County road bureaucracies.

As a result, these counties shifted the burden of paying for county services away from those who would naturally receive those services to the forest resource itself, to the great long-term detriment of federal forests and federal taxpayers elsewhere.[(3)] To a large degree, the unhealthy state of Oregon's forests today - particularly on the east side of the Cascades - was caused by the excessive harvests of the past. Past biologically unsustainable levels, however, were lobbied for hard by local county officials worried solely about paying for their growing budgets. County officials are generally not professional foresters. In the face of rising county costs, there was little concern by the counties about the ultimate impact of overharvest on the long-term health of the resource itself or on the economy.

Today we are paying a very high price for the sacrifice of the long-term health of Oregon's forests at the alter of short-term financial expediency. Stressed non-native species replanted into 'east side' forests are suffering from serious insect damage, and the risk of catastrophic fires. Many of Oregon's once abundant forest species are nearing extinction or already listed under the Endangered Species Act. Rural communities have now lost many of the legendary fish runs which once brought tourism. We now -- belatedly -- see the connection between a healthy forest ecosystem and a healthy rural economy.

Ecological constraints (including the need to protect endangered salmon and steelhead runs and to protect critical watersheds) have required major harvest cutbacks from the unsustainable harvest levels of the 1970's and 1980's. On the west side of the Cascades, the FEMAT Report and the work of many forest ecologists and biologists made it plain that harvest levels of about 600 - 750 million board-feet/year were all that could sustainably be taken from depleted federal timberlands - the levels targeted by the Northwest Forest Plan. These limits are not arbitrary. They are a reflection of the fact that the timber industry has run up against some basic natural biological limits of these forests. Pushing beyond those limits will result not in a net economic gain, but rather in net economic losses due to additional environmental damage done to other economically important resource-based industries such as fishing, recreation and municipal water supplies.

Why Linking County Budgets to Federal Timber Harvests Leads to Community Instability and Budget Crisis

Over the past decades, the markets for timber commodities (and with them linked payments to forest-

dependent communities) have been in long-term decline, largely due to the following three intransigent factors:

(1) Globalization of the industry, leading to increased supply and intensified competition, leading in turn to greater automation which causes downward pressure on timber industry wages;

(2) Cyclical trends and close linkage to larger demand-side economic trends (for example housing starts), leading to periodic industry downturns;

(3) Shifting working conditions, manifested by industry restructuring, price squeezes, steady replacement of a professional unionized workforce with outside contract labor, and a relatively low level of education needed to perform most types of work, which limits options for retraining.

In order to maintain profit margins in the context of intensified global competition, U.S. timber processing firms have boosted productivity by increasing the automation of their operations. Underlying this trend is an abundance of global timber supply sources from such countries as Canada, Chile, and New Zealand. This has exerted downward pressure on prices, further contributing to decreases in the number of firms remaining competitive in the industry, contraction of total employment in the industry, and reductions in compensation packages. This has also been evidenced by widespread increases in the use of cheaper outside contractors and consequent severe decline in timber industry union membership and employee benefits.

Research published by David Brooks of the Forest Science Laboratory in Corvallis, Oregon and recently summarized in *Science Findings*, a monthly publication of the Pacific Northwest Research Station, projects a moderate rate of increased global demand for industrial roundwood due to slow increases in income and consumption in developed countries. This slow demand growth trajectory should likewise keep prices depressed. Between 1970-1990, the annual growth rate in world consumption of industrial roundwood was only about 1.5%. The projections for 1990-2010 are approximately .02% annually - a growth level that is virtually stagnant.

Commodity and export-driven approaches to local community development are inherently risky--stumpage prices cannot be controlled by any local community in a global marketplace. This was readily seen in the timber recession of the early 1980's from a demand standpoint and is a real threat today from a supply standpoint. The global economic downturn for many developing countries will likely exacerbate oversupply issues, as these countries are eager to earn foreign currency and service debts by liquidating their forests.

To see how this plays out in the real world, county payments are tied to stumpage prices (the price paid for unmilled logs). Looking at stumpage prices over the last few years, it becomes obvious how timber prices have wildly fluctuated as a result of these global economic forces. Stumpage prices first started sliding during the forest products downturn in the early 1980's, then recovered strongly after the listing of the spotted owl in 1990, but have been declining steadily since 1994, with further losses projected in the near-term (Oregon Dept. of Forestry, 1998).

Stumpage Prices* (mbf/ in 1997 Dollars)

Year	Stumpage Price	Year	Stumpage Price
1979	340	1989	277
1980	300	1990	290

1981	245	1991	278
1982	143	1992	410
1983	138	1993	623
1984	116	1994	560
1985	100	1995	538
1986	124	1996	464
1987	137	1997	476
1988	173	1998**	398

All figures are rounded to the nearest whole dollar amount.

** Preliminary estimate.

Source: Oregon Department of Forestry

This represents a fluctuation in county timber revenues by 623% between 1985 to 1993 based on prices alone! Basing county budgets on such rapidly fluctuating markets (largely driven by overseas market forces over which there is no control) has already created considerable disruption and budget instability at the county level. Fostering even greater dependence of county revenues on what has now become a rapidly fluctuating global timber economy will simply make counties even more dependent on economic forces over which they have no control and cannot predict. On the other hand, stabilizing those payments on a fixed percentage basis will allow counties the certainty they need to plan a budget.

For additional details and analysis of why timber dependency works against long-term community stability, please see *Timber Dependency and Community Well-Being*, prepared by the Institute for Fisheries Resources. A copy is enclosed as part of this testimony as ATTACHMENT A.

Current Proposals

Clearly it no longer makes economic sense to hold county budgets hostage to volatile and declining global timber markets. Nor does it appear likely that future federal timber supplies are going to grow - if anything, the decades of abuse of public lands, and the enormous backlog of restoration that will be necessary to restore forest ecosystems on those lands, will require less timber harvesting and not more for the foreseeable future..

There are several competing proposals now on the table for how county revenues could be effectively 'de-coupled' from timber volumes and volatile stumpage prices and made more stabile. These are the salient points of each proposal:

The Administration: As I understand it, the Administration has proposed that county revenues paid by the Forest Service should be based on 76% of the average of actual timber receipts during the best three year period (whether or not consecutive) in the last ten years. At present, the Administration is proposing only that this provision shall apply to Forest Service lands, and not lands administered by BLM. The Administration is probably flexible on the exact formula however, and would not have any major objection to getting more money to the counties. The Administration's mechanism would also be in perpetuity as a guaranteed payment scheme, but does not index for inflation.

DeFazio Bill (H.R. 1185): Like the Administrtion's proposal, Rep. Peter DeFazio's H.R. 1185 would give the counties 76% of the average of their three *best* years (whether or not consecutive). The DeFazio bill, however, also *indexes for inflation* and additionally has a one-time-only opt-in or opt-out provision that must be made within a five year period. While this is probably unnecessary, we see no particular problem in allowing states to chose which path they follow so long as the choice is definitively made and final. Furthermore, DeFazio's bill also extends this concept specifically to Bureau of Land Management (BLM) lands. This is especially important for the State of Oregon because of the unique situation in Oregon with 'O & C lands.' Much of these O & C lands are managed by BLM, not the U.S. Forest Service, and payments from both need to be stabilized.

'**National Forest Counties and School Coalition' Proposal:** This proposal (recently introduced as H.R. 2389) is sponsored by a group of some (but by no means all) of the counties and local school districts potentially affected by such a change. Their plan is to set the payment level at 100% of the best year in the last 10 years, plus allow an annual 'either/or' choice provision for *each county*, for each year so that they could chose to base revenues on actual harvest receipts or not in each year.

Their bill also would establish special management 'Advisory Committees' in each forest region (composed of county and school officials, but excluding any members represent other public interests) who would thus get an 'inside track' with the managing agency, apparently to try to affect forest management policy to push it in the direction of increased harvests. Like the DeFazio bill, it also asks that payments be indexed.. However, in their scheme the whole issue would be only a temporary solution, with a long-term solution supposed to be worked out within four years.

This latter proposal is a total non-starter. This proposal appears to be based on a whimsical hope that somehow federal timber harvests will return to the 'good old days' of high harvest levels that got us into the current forest health crisis to begin with. This is highly unlikely within our lifetimes, nor would it be good forestry, for those levels were clearly unsustainable. Also, their 'either/or' annual option provision would just perpetuate a county incentive to press for unsustainable harvests at the expense of long-term forest health, in order to fill out voracious county budgets and support more county bureaucracy. And finally, the annual 'either/or option' would result in an annual administrative nightmare as well as create uncertainty on a year-by-year basis about the level of payments to any given county. Nor would this bill create a permanent solution, as would the DeFazio bill and Administration proposals.

How Counties Have Responded

Many counties have endorsed the Administration's plan for 'payment stabilization,' and see it as a necessary step toward finally stabilizing county budgets. Counties on record as supporting payment stabilization now include: Alpine County (CA); Lewis County (WA); Benton County (OR); Pitkin County (CO); Humboldt County (OR); Blaine County (ID); Coconino County (AZ); San Miguel County (CO); Whatcom County (WA); Ouray County (CO); Teton County (WY); Baker County (FL), and doubtless many others.

Most important, Lane County (OR) is the recipient of the largest amount of forest service payments in the State of Oregon, and its Commissioners have unanimously endorsed payment stabilization. Lewis County (WA) is the second largest recipient of forest service payments in the State of Washington, and has also endorsed stabilization. Coconino County in Arizona is that states recipient of the largest amounts of forest service payments. In other words, these counties, who are the most affected by the current payment scheme, have each endorsed this plan.

Oregon's Governor Kitzhaber has also expressed written support for the concept of payment stabilization, including indexing for inflation. A copy of his letter is attached to this testimony as ATTACHMENT B.

What a Good Bill Should Contain

Within the debate over the provisions, merits and demerits of the Administration's proposal, Rep. DeFazio's bill (H.R. 1185), and the county proposal lies the seeds of compromise and the components of a good bill. To our view, such a bill should contain the following elements:

(1) Fixed payments set aside in perpetuity -- Funds should be payable from a Trust Fund managed by the U.S. Treasury to be supported in part by timber revenues and in part from other sources at guaranteed amounts sufficient to pay obligations. Both the DeFazio bill and the Administration's proposal accomplish that goal.

(**2) Indexed for inflation** -- This is not a battle we want to reopen over and over again over time. All proposals except the Administration's support that goal, though the Administration is flexible on this but needs Congressional approval.

(3) No special deals for special interest groups -- These are public lands, and every federal taxpayer has an interest in their management. No special interest group should get an 'inside tack' to affect forest management policy to help pad county budgets and bureaucracies at the expense of public resources. Any viable proposal must be 'management neutral' (i.e., the current situation, which already provides for considerable public and county input would remain unchanged). Counties already have considerable sway over the management process.

(4) No 'either/or' annual cherry picking - Not only would rolling annual options be an administrative nightmare, it would simply perpetuate incentives to overharvest or to sacrifice long-term forest health for short-term gains.

At this point in time, some mix of the Administration and DeFazio approaches would be viable, perhaps with a higher formula amount somewhere between the county coalition proposal and the other two. Any bill which meets the above criteria would probably be acceptable to a broad coalition.

However, the county/schools group coalition needs to recognize that if they do not cooperate in negotiating a deal this year, it will become harder and harder to pass needed reforms, and they may get nothing in the long run.

Conclusions

In the end, continuing to hold county revenues hostage to a rapidly fluctuating, highly globalized, and regionally declining industry (increasingly subject to severe boom-bust cycles caused by international market forces beyond its control), simply will not lead to community stability, nor to stabile county revenues. Counties need stabile payments upon which to plan.

Nor can current federal logging levels be increased for the foreseeable future without severe collateral damage to the economy in other areas (including fishing and tourism), as well as the loss of future long-term timber revenues sacrificed for short-term gains. The only solution which will assure counties a stabile

and guaranteed revenue stream is some mix of the payment stabilization options currently under discussion. An example of the fiscal impact, using figures for the State of Oregon, follows:

Comparison of Current vs. Proposed Payments

to Oregon Counties (1998)

County	1998 Actual [4] Payment	76% of 3 yr.[5] high average	Difference
Baker	$1,401,042	$1,751,303	$ 350,261
Benton	304,013	380,016	76,003
Clackamas	4,342,655	5,428,318	1,085,663
Coos	493,002	616,252	123,250
Crook	157,808	197,260	39,452
Curry	3,445,759	4,307,199	861,440
Deschutes	2,951,082	3,688,852	737,770
Douglas	13,685,099	17,106,374	3,421,275
Grant	1,438,263	1,797,829	359,566
Harney	404,227	505,284	101,057
Hood River	1,768,979	2,211,224	442,245
Jackson	3,922,982	4,903,728	980,746
Jefferson	532,199	665,249	133,050
Josephine	1,885,670	2,357,088	471,418
Klamath	9,154,121	11,442,651	2,288,530
Lake	1,401,042	1,751,303	350,261
Lane	20,697,309	25,871,636	5,174,327
Lincoln	3,205,646	4,007,057	801,411
Linn	6,880,097	8,600,121	1,720,024
Malheur	2,361	2,951	590
Marion	2,599,267	3,249,084	649,817
Morrow	68,280	85,350	17,070
Multnomah	658,806	823,507	164,701
Polk	5,927	7,409	1,482
Tillamook	1,704,614	2,130,767	426,153
Umatilla	192,919	241,149	48,230
Union	323,747	404,684	80,937
Wallowa	536,634	670,793	134,159
Wasco	1,829,208	2,286,510	457,302
Wheeler	66,104	82,630	16,526
Yamhill	473,876	592,345	118,469
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STATE TOTALS =	$85,505,549	$106,881,811	$21,376,362

Endnotes:

1. Land distribution figures from a GIS database maintained by The Wilderness Society and published charts in The Wilderness Society publication, *The Living Landscape: Pacific Salmon and Federal Lands* (October, 1993).

2. Nehlsen, et.al., 1991. "Pacific Salmon at the Crossroads: Stocks at Risk from California, Oregon, Idaho, and California," *Fisheries* 16:2(4-21).

3. For instance, as a class O & C lands counties have far lower average property tax rates that other non-timber dependent counties in Oregon.

4. Source: US Forest Service figures. Counties covered by the NW Forest Plan receive 'safety-net' payments on a declining balance through 2003, at which time payments revert to a straight 25% once again.

5. Displays county distributions based on same prorata share they would have received in 1998, if calculated according to the Administration proposal at 76% of the average of the highest past three years of ten. The DeFazio bill (H.R. 1185) contains the same formula.

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